

**THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA**

DOCKET NO. 2018-358-WS

IN RE:

**Amended Verified Application of
Carolina Water Service, Inc. for
Approval of Annual Rate Adjustment
Mechanisms and Petition for an
Accounting Order to Defer Expenses**

**DIRECT TESTIMONY
OF
MICHAEL R. CARTIN**

**Q. PLEASE STATE YOUR NAME, PRESENT POSITION, AND BUSINESS
ADDRESS.**

A. My name is Michael R. Cartin. I am the Director of External Affairs and Strategy for Blue Granite Water Company (“Blue Granite” or “BGWC” or “the Company”), formerly known as Carolina Water Service, Inc. My business address is 130 South Main Street, Suite 800, Greenville, South Carolina 29601.

Q. WHAT ARE YOUR DUTIES IN YOUR CURRENT POSITION?

A. As Blue Granite's Director of External Affairs and Strategy, my duties and responsibilities include:

- Representing the Company’s interests before regulators, industry associations, and civic and special interest groups;
- Ensuring the Company’s interests are considered and protected in any legislation and regulations impacting South Carolina operations;
- Overseeing the communications and community relations functions; and
- Managing the Company’s environmental compliance and permitting programs, environmental planning activities, and overall compliance with environmental regulations and laws.

Q. WHAT IS YOUR EDUCATIONAL AND PROFESSIONAL BACKGROUND?

1 **A.** I graduated from the University of South Carolina in May of 2008 with a bachelor's degree
2 in Corporate Finance and I am currently an MBA candidate at the University of South Carolina's
3 Darla Moore School of Business. I have over nine years of experience in the regulated utility
4 industry. I worked at the South Carolina Office of Regulatory Staff as an Electric Utilities
5 Specialist for over four years. As an Electric Utilities Specialist, I audited the applications of
6 investor-owned electric utilities and presented testimony to this Commission in various fuel clause
7 adjustment hearings and rate case proceedings. I also worked as a Marketing Analyst for First
8 Citizens Bank and Trust before joining the Company as a Senior Financial Analyst in July 2014.
9 I was promoted to Director of External Affairs and Strategy in April 2018.

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

11 **A.** The purpose of my testimony is to support Blue Granite's Amended Verified Application
12 ("Application") for approval of (1) annual adjustment mechanisms for purchased water and
13 wastewater services, and (2) continued authority to defer changes in purchased water and
14 wastewater services expenses until such expenses are reflected in rates. More specifically, my
15 testimony addresses the need for the annual rate adjustment mechanisms and the continued deferral
16 authority, and why annual rate adjustment mechanisms for purchased water and wastewater services
17 represent sound regulatory policy. My testimony also provides background information concerning
18 Blue Granite's purchased water and wastewater services.

19 **Q. ARE YOU SPONSORING ANY EXHIBITS?**

20 **A.** Yes, Mr. Hunter and I are jointly sponsoring Exhibit 1, the Amended Verified Application
21 filed in this proceeding. I am generally sponsoring the Exhibit, and Mr. Hunter is sponsoring the
22 rate calculations and the proposed annual implementation procedures for the proposed rate
23 adjustment mechanisms.

1 **Q. WHAT RELIEF IS BLUE GRANITE SEEKING IN THIS CASE?**

2 A. Blue Granite is seeking Commission approval of two rate adjustment mechanisms. The first
3 would allow annual adjustments to the Company's water rates to reflect changes in wholesale
4 purchased water rates; the second would allow annual adjustments to the Company's wastewater
5 rates to reflect changes in purchased wastewater service rates. Blue Granite is not seeking to reflect
6 changes in volumes of retail water or wastewater delivered, nor is the Company seeking to include
7 other operation and maintenance expenses in the rate adjustment mechanisms. In addition to
8 seeking approval of the two rate adjustment mechanisms outlined above, Blue Granite is also
9 seeking Commission approval of the proposed rates included in the Application. These proposed
10 rates are discussed in more detail in Mr. Hunter's direct testimony. Additionally, Blue Granite is
11 seeking Commission approval to continue to defer changes in its purchased water and wastewater
12 services expenses until such changes are reflected in retail rates.

13 **Q. PLEASE DESCRIBE BLUE GRANITE'S PURCHASED WATER AND**
14 **WASTEWATER SERVICES CONTRACTS AND EXPENSES.**

15 A. The Company operates forty (40) purchased water systems in which water is purchased from
16 third-party providers to distribute to customers. The Company is charged a base facility charge and
17 a volumetric rate for the water purchased from each third-party provider. These rates are subject to
18 periodic adjustments as deemed necessary by each provider. As shown in Exhibit D of the
19 Application, the Company purchases water from the City of West Columbia, York County,
20 Lexington County Joint Municipal Water and Sewer Authority, City of Columbia, Town of
21 Lexington, West Anderson Water District, Broadway Water and Sewer, Hammond Water, City of
22 Rock Hill, City of York, Starr-Iva Water Co., Electric City Utilities, and Sandy Springs Water
23 District. The purchased water expense that is currently included in base rates is \$2,888,403. In 2018,

1 the Company purchased water totaling \$3,566,634 which is over 23% higher than what is currently
2 approved in base rates for recovery.

3 Blue Granite also operates ten (10) wastewater-collection-only systems in which the
4 Company collects wastewater from its customers and transports the wastewater to a third-party for
5 treatment. Depending on the third-party provider's rate structure, Blue Granite is charged either a
6 flat rate per customer or a volumetric charge for the treatment and disposal of the wastewater. These
7 rates and charges are subject to periodic adjustments as deemed necessary by the provider. As shown
8 in Exhibit D of the Application, the Company purchases wastewater treatment services from York
9 County, Richland County, Georgetown County Water and Sewer, the Town of Chapin, Beaufort-
10 Jasper Water and Sewer, and the Town of Lexington. The wastewater treatment expense from third-
11 party providers currently in base rates is \$1,070,343. In 2018, the Company's wastewater treatment
12 expense totaled \$1,770,966, which is over 65% higher than what is currently approved in base rates
13 for recovery.

14 **Q. HOW HAVE BLUE GRANITE'S PURCHASED WATER AND WASTEWATER**
15 **SERVICES EXPENSES HISTORICALLY BEEN REFLECTED IN RATES?**

16 **A.** Currently, the Company recovers its purchased water and wastewater services expenses in
17 base rates. In the most recent case, the Commission approved a level of expenses for purchased
18 water and wastewater services, and rates were designed to recover these costs without markup.
19 When a third-party provider increases rates charged to the Company, the Company utilizes a
20 regulatory asset to defer the incremental expense associated with rate increases. These deferrals
21 are tracked monthly, and the Company can seek recovery of the balance in the deferral accounts
22 in a future rate proceeding.

1 Prior to the Company's 2015 rate case, the Company utilized a passthrough system. The
2 charges imposed by the third-parties providing water supply or wastewater services were charged
3 to the Company's respective affected customers on a pro rata basis without markup. When the
4 Company received notice of an increase from a provider, it would show proof to the Commission
5 of the increase and provide notice to the customers. After the notice period had passed and
6 Commission approval was obtained, the Company would update its rates to passthrough the costs
7 of purchased services, without markup, to the affected customers.

8 **Q. WHY DID BLUE GRANITE MOVE AWAY FROM A PASSTHROUGH SYSTEM**
9 **IN 2015?**

10 **A.** We worked collaboratively with ORS to remove the former passthrough system because it
11 caused a billing lag and caused customers to be billed on rates that varied as frequently as monthly,
12 which caused confusion for customers. Prior to the change, the Company was issuing 39 different
13 rates each month to reflect the various passthrough charges. These issues will not exist with the
14 arrangement proposed in this Amended Application because the proposed mechanisms will have
15 no impact on the timing of bills, rates will change under the proposed adjustment mechanism no
16 more often than once per year, and the rate updates will be much more streamlined under our
17 current system of consolidated rates.

18 **Q. WHY ARE THE PROPOSED ANNUAL RATE ADJUSTMENT MECHANISMS**
19 **FOR PURCHASED WATER AND WASTEWATER SERVICES NEEDED?**

20 **A.** It is important to recognize that one goal of utility regulation is to provide the utility with an
21 opportunity to recover its prudent and necessary costs of providing utility service. Periodic rate cases
22 are often used for such cost recovery, but there are some expense items for which a rate case is not
23 sufficient – i.e., general rate cases do not permit the utility to accurately reflect certain types of costs in

1 rates on a timely basis. Fuel costs are a prime example. They are necessary to provide service, they are
2 a significant cost item, and they are largely outside of the control of the utility -- but they vary
3 significantly from year to year such that building an amount in base rates in a rate case will lead to
4 either a period of under-recovery or an over-recovery of such costs, which must be trued up at a later
5 date. In such a case, base rate case treatment has the potential to create “winners” and “losers” – either
6 the utility will lose (and customers will “win”) if the utility under-recovers its costs, or the utility will
7 “win” and customers will lose if the base amount in rates is more than the actual costs in a year. If the
8 utility has been under-recovering these costs, by the time a general rate case has been filed and
9 approved, such under-recovery could result in a substantial rate increase. If, on the other hand, the
10 utility has been over-recovering these costs, customer bills have been unnecessarily high until such
11 time as they are corrected through a general rate proceeding. Permitting recovery to track actual costs
12 on a regular basis—outside of a general rate proceeding—will match expenses to recovery on a more
13 timely basis, thereby providing a benefit to customers.

14 Blue Granite’s purchased water and wastewater services are analogous. They represent a
15 significant component of the Company’s cost to serve. This is evidenced by the fact that the Company’s
16 2018 purchased water expenses totaled over \$3.5 million, out of a total operation and maintenance
17 expense of approximately \$15.1 million. Similarly, Blue Granite’s purchased wastewater expenses in
18 2018 were almost \$1.8 million, out of a total O&M expense budget of approximately \$15.1 million.
19 These expenses are necessary to provide reliable water and wastewater services. These expenses also
20 vary significantly from year to year; as the Amended Application demonstrates, from just 2017 to
21 2018, purchased water expenses increased by 27% and purchased wastewater services expenses
22 increased by 58%. Due to the fluctuations in costs as well as the necessity to purchase these services,
23 the purchased water and wastewater components of the Company’s operations change significantly

1 between general rate proceedings, without any mechanisms currently in place to recover such expenses
2 on a timely basis. In sum, the purchased water and wastewater services expenses are recurring,
3 significant, and variable. To address these recurring and significant changes in expenses, the proposed
4 rate adjustment mechanisms will allow the utility to pass through the cost of these services on a more
5 regular basis. Also, because of the contracts with and rates charged by third-parties, the expenses are
6 not controlled by the Company. For all of these reasons, these types of expenses are more appropriately
7 recovered in rate adjustment mechanisms rather than a general rate proceeding.

8 **Q. ARE RATE ADJUSTMENT MECHANISMS FOR EXPENSES SUCH AS**
9 **PURCHASED WATER AND WASTEWASTE SERVICES IN THE PUBLIC INTEREST?**

10 **A.** Yes.

11 **Q. WHY?**

12 **A.** As discussed above, treatment of these expenses in base rates does not permit the utility to
13 accurately reflect these costs in rates on a timely basis. The rate adjustment mechanisms proposed
14 in the Application will allow recovery of actual costs, no more and no less. The Company's
15 proposed rate adjustment mechanisms will capture both increases and decreases in purchased
16 water and wastewater expenses. The process provides a sensible benefit to both the customer and
17 the utility, as it allows for timely adjustments to rates to accurately reflect the actual costs of these
18 expenses. Additionally, mechanisms such as these can help to alleviate large fluctuations in rates
19 from base rate cases by providing for more gradual adjustments to rates, while at the same time
20 sending more accurate price signals to customers. By helping match cash flow to actual expenses,
21 the mechanisms will also support the Company's ability to finance its operations on reasonable
22 terms and continue to attract equity capital. Lastly, the requested mechanisms will assist in

1 deferring the need for new rate cases due to purchased services expenses, therefore reducing
2 administrative costs while preserving the Company's financial integrity.

3 **Q. HAS THE SC PSC GRANTED SIMILAR RELIEF TO OTHER UTILITIES?**

4 A. Yes. Rate adjustment mechanisms for purchased services expenses are widespread in South
5 Carolina. As mentioned in the Application, this Commission has approved rate adjustments for
6 increases in purchased services expense for Kiawah Island Utility, Inc. in Order No. 2002-285, where
7 the Commission approved a passthrough mechanism for the utility with respect to its purchased
8 water costs, stating: "With the passthrough mechanism as proposed by the company, the potable rate
9 to customers could be adjusted, with Commission oversight, on a timely basis and eliminate the need
10 for a rate application to compensate for this expense." Additionally, in Order No. 2014-48, the
11 Commission allowed Ocean Lakes utility, L.P. to "pass through, without markup, the increases in
12 wholesale wastewater rates charged by Grand Strand Water and Sewer Authority over a two-year
13 period as requested." Additional examples are referenced in the Amended Application.

14 **Q. THE COMPANY IS ALSO REQUESTING AUTHORITY TO CONTINUE**
15 **DEFERRING ITS PURCHASED WATER AND WASTEWATER SERVICES EXPENSES**
16 **UNTIL SUCH COSTS ARE REFLECTED IN RATES. WHY IS THIS CONTINUED DEFERRAL**
17 **AUTHORITY NECESSARY?**

18 A. Deferred accounting authority goes hand-in-hand with the Company's request for approval
19 of the rate adjustment mechanisms. Continued deferral authority will allow the Company to record
20 changes in its purchased water and wastewater services expenses in a regulatory asset account until
21 such time as the Commission approves recovery of such expenses through the applicable rate
22 adjustment mechanism.

23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

24 A. Yes, it does. I would like to thank the Commission for hearing our case.